

ARTICLE APPROVED
ON PAGE **21**NEW YORK TIMES
15 February 1987

IRAN SALES LINKED TO WIDE PROGRAM OF COVERT POLICIES

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Special to The New York Times

WASHINGTON, Feb. 14 — The Reagan Administration's clandestine dealings with Iran and the Nicaraguan rebels grew out of a well-concealed program established in the White House at least four years ago to conduct covert foreign policy initiatives, according to many present and former Government officials.

The program, Project Democracy, began as the secret side of an otherwise open, well-publicized initiative that started life under the same name. Project Democracy's covert side was intended to carry out foreign policy tasks that other Government agencies were unable or unwilling to pursue, the officials said.

Although the public arm of Project Democracy, now known as the National Endowment for Democracy, openly gave Federal money to democratic institutions abroad and received wide bipartisan support, officials said the project's secret arm took an entirely different direction after Lieut. Col. Oliver L. North, then an obscure National Security Council aide, was appointed to head it about three years ago.

'Cultivating' Democracy

By 1986, Project Democracy had become "what Ollie referred to as the umbrella project for supporting things," a well-placed White House official said.

As a result, it now appears that it was President Reagan's vision of cultivating the "fragile flower of democracy," as he first described Project Democracy in a 1982 speech, that pulled the National Security Council into the business of running secret operations from the White House. It culminated in the scandal over the sale of arms to Iran and the diversion of profits to the Nicaraguan rebels.

Over the last four years, Project Democracy grew into a parallel foreign policy apparatus — complete with its own communications systems, secret envoys, leased ships and airplanes, offshore bank accounts and corporations.

Outside the Established Process

It operated outside the established Government decision-making process and beyond the purview of Congress and was, officials said, an expression of the Administration's deep frustration that it could not push the foreign policy bureaucracy or Congress to embrace what Administration officials described as the "Reagan doctrine" of supporting anti-Communist insurgencies.

Congressional investigators studying the Iran-contra affair say they are finding references to Project Democracy scattered throughout the N.S.C. documents they have acquired. And the special White House panel investigating the N.S.C. has questioned witnesses about Project Democracy and has found that it carried out a wide array of secret activities not yet known to the public, according to sources familiar with the commission's work.

Still, investigators say they do not know the full scope of the activities undertaken in the name of Project Democracy.

Although the project's open and secret parts were born as twins in 1982, the two grew up on such divergent tracks that today many officials do not remember they were ever related.

While the project's public arm, the National Endowment for Democracy, was openly granting Federal money to foreign book publishers, labor unions and other institutions last year, under Colonel North's direction the secret side was sending privately raised covert aid to the Nicaraguan rebels and carrying out a wide range of other activities, including the arms sales to Iran.

Project's Covert Side: A Well-Kept Secret

All the covert activities were carried out under such tight secrecy that most officials involved with Project Democracy's public side, and even some of Colonel North's colleagues at the N.S.C., said they were unaware of the secret program. When some N.S.C. officials heard or saw references to Project Democracy, they said, they concluded it was only Colonel North's "pet code name for his activities," one official said.

A senior N.S.C. officer directly involved with Project Democracy's overt side said he did not know the program had a secret component. But whatever Colonel North was doing, he asserted, "it is wrong to characterize it as Project Democracy."

But another knowledgeable Government official who worked with Colonel North said he occasionally "heard North make reference" to Project Democracy and asked him what it meant. Colonel North, normally voluble, "just sort of grinned" at the question. "He clearly didn't want to talk about it."

Project's Original Concept

Carl Gershman, president of the National Endowment for Democracy, said he did not know the project had a covert arm. But if it did, he added, it was a perversion of the original concept.

In fact, much of the early debate over Project Democracy in 1982 centered on the concern that it would be used as a vehicle for covert activities. Congress agreed to fund it late in 1983 only after William J. Casey, the Director of Central Intelligence, promised that his agency would not be involved. As it turned out, the C.I.A. did not run the project because officials had decided to run the covert side from the N.S.C.

Representative Norman Y. Mineta, Democrat of California, who served on the Intelligence Committee until 1985, said "the phrase Project Democracy kept popping up" in inquiries involving the contras. But after checking, he added, "we were unable to find any C.I.A. connection, so we dropped it."

Colonel North's Role: A Clear Mandate?

Officials said the Tower Commission, named for its head, former Senator John Tower, has been unable to prove that President Reagan directly authorized the secret activities carried out under Project Democracy. But in August of 1985, when The New York Times first disclosed that Colonel North had been heavily involved in aiding the contras under the program now known to have been called Project Democracy, the White House spokesman, Larry Speakes, issued this statement:

"The President was fully aware of the extent of the relationship between N.S.C. members and members of the democratic resistance group, and he has been aware of it all along."

It is not clear that Colonel North had a precise mandate for Project Democracy at the outset, other than to coordinate what a secret White House planning document on the project referred to as "covert action on a broad scale" to promote public and private democratic institutions abroad.

But an Administration official familiar with the project's early history said the covert actions initially contemplated were of a wholly different nature than those later carried out.

"Of course it was to include covert actions," the official said. For example, he added, "those printing presses people put their hands on in Eastern Europe, they don't come out of nowhere."

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'Grabbing the Action'

As the project took shape in the Reagan Administration's early years, officials said, another formative influence changed the project's direction. The White House was unhappy with the State Department's level of enthusiasm for the Administration's Central America policy, and N.S.C. officials saw Project Democracy as a way "of grabbing the action" on Nicaragua policy, a former N.S.C. official said.

After Congress restricted aid to the contras in 1984, Colonel North and other officials established a labyrinth

of offshore companies, secret bank accounts and private employees that kept the contra movement alive with money, equipment and other aid, all under the Project Democracy rubric, Congressional investigators say.

With that large, secret infrastructure already in place, in 1986 the N.S.C. used the "Project Democracy companies," as secret White House memos called them, to run the covert program to ship arms to Iran.

Last fall, officials said, a Project Democracy ship was used to attempt a ransom, ultimately unsuccessful, of the American hostages in Lebanon, using \$1 million donated by H. Ross Perot, the Texas billionaire.

Some of the White House computer memos that have been turned over to investigators note that when secret projects were proposed, officials often intended to get "one of our Project Democracy companies to pay for it," Congressional investigators said.

Origins of the Project: Fostering Democracy

Those activities are a far cry from the Project Democracy that President Reagan announced on June 8, 1982, in a speech to the British Parliament.

He described the program as a worldwide effort "to foster the infrastructure of democracy, the system of free press, unions, political parties, universities, which allows a people to choose their own way to develop their own culture, to reconcile their own differences through peaceful means."

Modeled after a similar program in West Germany in the early 1970's, the idea was to raise money from public and private sources and give it to fledgling democratic organizations, such as newspapers and labor unions, in countries where freedoms were threatened or restricted.

Early Government planning for the project was eager, almost zealous.

"Project Democracy was one of those terms that became kind of a buzzword," an Administration official said. "The fact that you could say something was a part of Project Democracy gave it an extra cachet."

Since many of the activities proposed had been carried out by the C.I.A., a former senior intelligence official said, "there was a lot of suspicion at the start that it was really going to be for covert C.I.A. activities" — suspicions Government officials said they worked hard to allay.

But within weeks of Mr. Reagan's Project Democracy speech in London, the Administration had decided that the project would have to have a covert side as well. It was to be run from the N.S.C. since people were worried about possible C.I.A. involvement. Still, it is clear that the C.I.A. often offered help.

In August 1982, according to a secret White House memo setting the agenda for a Cabinet-level planning meeting on Project Democracy, officials decided that "we need to examine how law and executive order can be made more liberal to permit covert action on a broader scale."

The memorandum added, "Both in the N.S.C. organizational structure and the National Security Decision Directive" establishing Project Democracy, "one must address how much of the political action contemplated is already covered by law and executive order providing for covert action."

Asked about this in an interview with The New York Times in January 1983, Robert C. McFarlane, then the National Security Council's deputy director, said Project Democracy's covert side would be run from the N.S.C. because, "let's not be naive — if we have the C.I.A. involved in this thing we can call it off right off the bat."

In January 1983, President Reagan signed National Security Decision Directive No. 77, a classified executive order that permitted the N.S.C. to coordinate inter-agency efforts for Project Democracy.

The directive makes no direct mention of the program's covert side, but does authorize "political action strategies" to counter moves by "the Soviet Union or Soviet surrogates."

The term "political action" can carry several meanings, but the earlier White House document on Project Democracy had used it almost interchangeably with the phrase "covert action." Funding was not discussed.

Secret Financing: Outside Sources

Although the National Endowment for Democracy, Project Democracy's

overt side, has from the beginning received Federal funds appropriated by Congress, many officials said that in the early planning it was assumed Project Democracy would be partly or largely financed from non-Government sources. As it turned out, the covert side of Project Democracy apparently was also financed by foreign governments and, perhaps, by wealthy private individuals.

"The whole idea of getting private funding was completely accepted as the Administration way of doing things," said a former National Security Council official involved in Project Democracy planning.

Already in 1983 there were precedents.

Soon after taking office, the Reagan Administration convinced Argentina to spend many millions of dollars in secret to train and equip the fledgling Nicaraguan rebel army.

And when the United States agreed to sell American-made Awacs radar planes to Saudi Arabia late in 1981, in one secret part of that agreement the Saudi Government promised to give money to anti-Communist resistance groups around the world, at the behest of the United States.

Senate investigators disclosed last month that Saudi Arabia gave at least \$30 million to the Nicaraguan rebels, at the United States' request. The money was apparently deposited in what White House memos refer to as "Project Democracy accounts."

White House Meetings

In 1982 and 1983, much of the discussion among government officials involved convincing wealthy individuals to contribute to Project Democracy.

In March of 1983, Charles Z. Wick, the U.S.I.A. director, arranged a White House meeting with the President for several millionaires and billionaires, including Sir James Goldsmith, publisher of L'Express, the French magazine; W. Clement Stone, a Chicago businessman, and Rupert Murdoch, who owns newspapers and other publications in the United States and other countries.

Mr. Wick, it was later disclosed, had been taping many of his telephone calls in this period, and transcripts made available in 1984 explicitly demonstrated that he intended to have these men asked to contribute to Project Democracy. The meeting took place, but apparently no money was raised, although a former senior official directly involved in the matter said that there had been similar White House meetings later, and that he did not know if money had been raised for Project Democracy at those.

Speaking of the first meeting, the official said, "I could never prove that anyone ever said to the President, 'This meeting is to raise money for covert activities.'" But he said he believed that was the purpose.

Mr. Wick issued a statement last week saying "I did not, and I was never asked to" raise money for Project Democracy.

The Progress of Project Democracy

June 8, 1982 President Reagan announces Project Democracy in a speech to the British Parliament, saying its purpose is to foster democratic ideals in authoritarian regimes.

Early August 1982 A White House memorandum calls for re-examination of the law in order to permit "covert action on a broad scale" by the National Security Council under the project.

Late August 1982 The White House excludes the Central Intelligence Agency from the program for fear that C.I.A. participation would confirm suspicions that the project would be used as a cover for covert activities.

January 1983 President Reagan signs National Security Decision Directive No. 77, permitting the N.S.C. to coordinate Project Democracy activities.

March 1983 Wealthy business executives are invited to the White House for the purpose of soliciting money for Project Democracy.

October 1983 Robert C. McFarlane is appointed national security council adviser, and he then names Lieut. Col. Oliver L. North to head Project Democracy's covert arm.

November 1983 Congress approves the first financing for the National Endowment for Democracy after the Director of Central Intelligence, William J. Casey, pledges in public that the agency will not be involved.

December 1984 The first known delivery of weapons to the Nicaraguan rebels, or contras, under Project Democracy leaves Lisbon for Honduras.

Spring 1985 Lake Resources, the Dolmy Corporation and other Project Democracy companies are chartered.

August 1985 The White House acknowledges that Colonel North has been aiding the contras.

November 1985 A White House memorandum calls Lake Resources "our Swiss company" and says one of its airplanes had just delivered weapons to the contras.

May 1986 At the request of the United States Government, a Texas businessman, H. Ross Perot, puts up \$1 million as proposed ransom for United States hostages in Lebanon. A Project Democracy ship is used to ferry money to the Middle East, but the ransom is not accepted.

October 1986 A Project Democracy ship is used in an unsuccessful attempt to trade United States weapons for a sophisticated Soviet tank held by Iran.